

Message Text

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ACTION PM-04

INFO OCT-01 NEA-10 ISO-00 NSC-05 SP-02 SS-15 CIAE-00

INR-07 NSAE-00 L-03 EB-07 MC-02 OMB-01 IGA-02 AID-05

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C O N F I D E N T I A L RABAT 6279

E.O. 11652: GDS

TAGS: MASS

SUBJECT: GOM MILITARY PROCUREMENT PLANS

REF: STATE 284179 DTG 030005Z DEC 75, PARA 6

1. RE WASHINGTON AGENCIES CONCERNS RESPECTING GOM ABILITY TO PAY FOR FMS AT PROJECTED LEVELS AND EFFECTS ON NATIONAL ECONOMIC DEVELOPMENT OF FMS PROGRAM IN LIGHT OF DIMINISHING PHOSPHATE REVENUES AND GENERAL ECONOMIC SLOWDOWN, COUNTRY TEAM HAS BEEN MONITORING PROBLEM CLOSELY SINCE FIRST SIGNS OF TROUBLE A YEAR AGO. AS REFLECTED BY RECENT REVIEW, RESULTS OF WHICH CONTAINED RABAT 5502, PARA 1, COUNTRY TEAM JUDGMENT IS THAT WHILE WE AGREE WITH WASHINGTON THAT THERE MAY BE SOME RECURRING COLLECTION PROBLEMS FROM TIME TO TIME AS RESULT GOM FINANCIAL STRINGENCIES, CUT-BACK IN FMS LEVEL WOULD NOT SIGNIFICANTLY EASE GOM DEVELOPMENT FINANCE NEEDS OR REDUCE US COLLECTION PROBLEMS ON LOWER LEVEL FMS SALES PROGRAM. THIS ASSESSMENT BASED ON FOLLOWING LOGIC:

A. KING HAS FIRMLY DETERMINED THAT NATIONAL DEFENSE NEEDS ARE AT MOMENT FIRST PRIORITY IN TERMS OF BOTH INTERNAL AND EXTERNAL SECURITY REQUIREMENTS. IF WE DO NOT SELL HIM WHAT HE WANTS ON AGREED SCHEDULE HE WILL BUY ELSEWHERE. U.S. WILL LOSE SALES (AND CONSEQUENTLY IMPORTANT ASPECT OF U.S. PRESENCE WILL
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BE DIMINISHED), WHILE NO IMPORTANT DIVERSION OF FUNDS WOULD TAKE

PLACE INTO SOCIAL AND ECONOMIC DEVELOPMENT. CASH FLOW PROBLEMS WOULD REMAIN, WITH PAYMENTS TO U.S. NOW OF LOWER PRIORITY THAN AT PRESENT. AS RESULT, U.S. COLLECTION HEADACHES WOULD NOT DIMINISH AND COULD INSTEAD MOUNT AS PAYMENTS TO U.S. ARE PUT IN LINE BEHIND PAYMENTS TO FRENCH, SOVIETS, OR OTHERS.

B. MILITARY RENEWAL PROGRAM HAS BEEN IMPORTANT ELEMENT IN HOLDING LOYALTY OF ARMED FORCES AND DEVELOPING SENSE OF NATIONAL SECURITY VIS-A-VIS ALGERIA. FMS HAS THUS INDIRECTLY TO SOME EXTENT HELPED HASSAN TO INITIATE AND SUCCESSFULLY PURSUE SAHARA RECOVERY PROGRAM (NO U.S. MATERIEL OF COURSE DIRECTLY INVOLVED). HAVING CONTRIBUTED TO MOROCCO'S OBTAINING VALUABLE PIECE OF REAL ESTATE, EXISTING U.S. FMS PROGRAM CAN BE ANALYZED FROM KING'S STANDPOINT AS A HIGHLY SOUND, AND SELF-LIQUIDATING INVESTMENT. IF REPORTS ARE CORRECT, GOM WILL NOW OWN 2/3 OF BU CRAA MINE WHICH LAST YEAR PRODUCED ABOUT 3.5 MILLION MT OF PHOSPHATE ROCK. AT PRE-VAILING \$60 PER TON PRICE AND WITH NO INCREASE IN PRODUCTION, \$500 MILLION FMS PURCHASES COULD BE AMORTIZED OVER PERIOD OF THREE AND A HALF YEARS. FEW INVESTMENTS OFFER SUCH PRICE/EARNINGS ATTRACTIONS. NOR DOES THIS CALCULATION TAKE INTO ACCOUNT RICH COASTAL FISHERIES ACQUIRED WITH SAHARA, OFF-SHORE OIL POTENTIAL, OR OTHER INLAND MINERALS POSSIBILITIES. WHILE NOT DIMINISHING SHORT TERM FINANCING STRINGENCIES RAISED REFTEL, GOM HAS THUS ACQUIRED WEALTH TO AMORTIZE FUTURE DEVELOPMENT AND MILITARY RENEWAL NEEDS--THOUGH NEXT TWO YEARS WILL AS NOTED REQUIRE SOME ASTUTE FINANCIAL NAVIGATION.

C. MOST TELLINGLY, AVAILABLE INTELLIGENCE INDICATES SAUDIS HAVE MADE AVAILABLE TO GOM GRANT OF \$200 MILLION EARMARKED SPECIFICALLY FOR MILITARY PURCHASES. REDUCTION OF PROJECTED FMS PROGRAM LEVEL WOULD NOT REPEAT NOT PERMIT DIVERSION THOSE FUNDS INTO DEVELOPMENT OR SOCIAL NEEDS, REINFORCING LOGIC OF PARA A. ABOVE. WE BELIEVE-THOUGH CANNOT PROVE-THAT IRREGULAR TRANSFER OF FUNDS FROM SAUDI TO GOM ACCOUNT MAY IN PART ACCOUNT FOR SOME SLIPPAGES IN GOM PAYMENTS. THERE ARE ALSO MORE THAN NORMAL BUREAUCRATIC INEFFICIENCIES IN F.A.R. TO BE TAKEN ACCOUNT OF, WHILE USG HAS NOT BEEN WITHOUT FAULT IN TRACKING SOME PAST GOM PAYMENTS AND MAKING SURE THEY HAVE GOTTEN INTO CORRECT ACCOUNTS.

D. WHILE WE JUDGE 1975 WILL TURN OUT TO HAVE BEEN ONE OF SLIGHT OR POSSIBLY ZERO GROWTH FOR MOROCCO AND BALANCE OF PAYMENTS LIKELY TO COVER LARGE DEFICIT ONLY BY LOANS FROM ARAB BROTHERS, GOM BORROWING CAPACITY REMAINS HIGH AND PLANS ARE
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ALREADY AFOOT FOR FURYER EURO-BORROWING TO SUPPLEMENT EARLIER \$200 MILLION PLACEMENT. IMF CREDIT ALSO REMAINS UNDRAWN. SUMMING UP: COUNTRY TEAM AGREES WITH WASHINGTON CONCERNS EXPRESSED REFTEL; BUT HAVING ANALYZED SITUATION IN LIGHT OF TOTAL POLITICAL/MILITARY PICTURE AND TAKING INTO ACCOUNT OVERALL FINANCING CAPACITY OF ECONOMY, WE CONTINUE TO BELIEVE EXISTING LEVEL FMS REMAINS JUSTIFIED AND SERIOUS HEADACHES WOULD BE CREATED FOR BOTH GOM AND US BY REVISING PROGRAM DOWNWARDS. AS WE SEE IT NO

REPEAT NO COMPENSATING ADVANTAGES WOULD BE GAINED BY MOROCCO IN
TERMS OF ACCELERATED ECONOMIC DEVELOPMENT.
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